

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF RATES OF THE)	
U.S. 60 WATER DISTRICT OF SHELBY)	CASE NO. 96-318
AND FRANKLIN COUNTIES, KENTUCKY)	

O R D E R

On July 29, 1996, U.S. 60 Water District of Shelby and Franklin Counties, Kentucky ("U.S. 60") filed its application for Commission approval of proposed water rates. Commission Staff, having performed a limited financial review of U.S. 60's operations, has prepared the attached Staff Report containing Staff's findings and recommendations regarding the proposed rates. All parties should review the report carefully and provide any written comments or requests for a hearing or informal conference no later than 15 days from the date of this Order.

IT IS THEREFORE ORDERED that all parties shall have no more than 15 days from the date of this Order, or 90 days after the date the application was filed, whichever is later, to provide written comments regarding the attached Staff Report or requests for a hearing or informal conference. If no request for a hearing or informal conference is received, this case will be submitted to the Commission for a decision.

Done at Frankfort, Kentucky, this 18th day of October, 1996.

ATTEST:



Executive Director

PUBLIC SERVICE COMMISSION


For the Commission

FILED

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PUBLIC SERVICE
COMMISSION

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STAFF REPORT

Prepared By: Carl Salyer Combs
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Financial Analysis Division

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Public Utility Rate
Analyst
Communications, Water and
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STAFF REPORT

ON

CASE NO. 96-318

A. Preface

On July 29, 1996, U.S. 60 Water District of Shelby and Franklin Counties, Kentucky ("U.S. 60") filed an application with the Commission seeking to increase its water rates. The proposed rates would generate an increase of 11.65 percent over normalized test-year revenues from water sales of \$409,388.

In order to evaluate the requested increase, the Commission Staff ("Staff") chose to perform a limited financial review of U.S. 60's operations for the test period, calendar year 1995. Since U.S. 60 requested and received Staff assistance in preparing this application, the field review was done prior to the filing of the application. Carl Salyer Combs conducted the review on May 3, 1996, at U.S. 60's offices in Bagdad, Kentucky. Mr. Combs is responsible for this Staff Report except for the sections on operating revenues and rate design which were prepared by Sam Reid of the Commission's Division of Rates and Research.

During the course of the review, U.S. 60 was informed that all proposed adjustments to test-year expenses must be supported by some form of documentation, such as an invoice, or that all such adjustments must be known and measurable. Based upon the

findings of this report, Staff recommends that U.S. 60 be authorized to increase its annual operating revenues by \$31,931.

Scope

The scope of the review was limited to obtaining information to determine whether reported test-period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

B. Analysis of Operating Revenues and Expenses

Operating Revenues

U.S. 60's 1995 annual report filed with the Commission listed operating revenue for metered water sales in the amount of \$404,475 and other water revenues of \$7,917. The utility informed Staff that other water revenue consisted of bulk sales, water sales to a school and industrial customers. The test year statement of adjusted operations filed by U.S. 60 showed normalized revenue from water sales in the amount of \$409,388, which compares favorably with the billing analysis filed by U.S. 60 and prepared by Staff. For the purpose of this report test year operating revenue from water sales shall be considered to be \$409,388.

U.S. 60 charges 190 customers a surcharge of nine dollars (\$9) per month per customer. An additional surcharge of twelve dollars (\$12) per month per customer will be

charged to approximately twenty-two (22) new customers upon completion of a current extension project. Total annual surcharge revenue is projected to be \$23,688¹.

Operating Expenses

U.S. 60 incurred, and the Staff-assisted application included, test-period operating expenses of \$315,260. U.S. 60 proposed to reduce that amount by \$14,897. U.S. 60's proposed adjustments and Staff's recommendations are discussed in the following sections:

Salaries and Wages - Employees

U.S. 60 proposed to eliminate reported test-year salaries and wages for employees of \$29,800 since, as of November, 1995, the district had no employees. Meter reading, billing, maintenance, etc. are contracted out to North Shelby Water Company ("North Shelby"). Staff is of the opinion that the proposed adjustment is reasonable and recommends that no annual salaries and wages for employees be included for rate-making purposes.

Salaries and Wages - Officers

U.S. 60 proposed to eliminate reported test-year salaries and wages for officers of \$7,275 because, as of November, 1995, the district no longer had officers. Staff is of the

¹ 190 customers		22 customers	
x \$9 surcharge		x \$12 surcharge	
\$ 1,710		\$ 264	
<u>x 12 months</u>		<u>x 12 months</u>	
\$20,520	+	\$ 3,168	= \$23,688

opinion that the proposed adjustment is reasonable and recommends inclusion of no annual salaries and wages for officers, for rate-making purposes.

Employee Pensions and Benefits

U.S. 60 proposed to eliminate reported test-year employee pensions and benefits expense due to the fact that, as of November, 1995, the district no longer had any employees. Staff is of the opinion that the proposed adjustment is reasonable and recommends inclusion of no annual employee pensions and benefits expense for rate-making purposes.

Contractual Services

U.S. 60 reported test-year contractual services expense of \$12,903, all of which was related to accounting services. At the time of the field review, Staff learned that engineering expenses and legal expenses had been included in another account. Staff also learned from U.S. 60's accountant that the reported amount for accounting services should have been \$8,680 and that the correct amount of test-year legal expense was \$4,006. These two amounts added to test-year engineering services expense of \$3,935 yields a total of \$16,621, the annual amount that Staff recommends be included for rate-making purposes.

Because of a concern by Staff as to whether these expenses have been recurring since North Shelby began providing numerous services for U.S. 60 in November, 1995, U.S. 60 provided a schedule prepared by its accountant of charges for contractual services for the first eight months of 1996. That schedule shows a total of \$13,123 through August

31, 1996. That amount extrapolated over a twelve-month period would exceed the annual amount of \$16,621 recommended by Staff for rate-making purposes.

Contractual Services - Other

U.S. 60 reported test-year contractual services - other expense of \$44,555. As mentioned in a previous section, North Shelby provides various services for U.S. 60, including meter reading, billing, maintenance, etc. North Shelby charges a flat monthly fee of \$3,288.44, plus \$.75 per meter for meter reading, \$.50 per meter for bill processing, and actual cost for parts used. U.S. 60 provided support for contractual services expenses of \$33,217.64 for the six-month period of November, 1995, through April, 1996. This amount does not include other expenses such as legal and engineering which have been reclassified to appropriate accounts as explained previously in this report. Since the charges of \$33,217.64 represent a six-month period, U.S. 60 proposed to double that amount which serves to annualize the expense. Staff is of the opinion that the proposed adjustment is reasonable and recommends that annual contractual services - other expense of \$66,435 be included for rate-making purposes.

Transportation Expense

U.S. 60 proposed to eliminate reported test-year transportation expense of \$600 due to the fact that such expense is now borne by North Shelby and is included in contractual services - other expense. Staff is of the opinion that the proposed adjustment is reasonable and recommends that no annual transportation expense be included for rate-making purposes.

Insurance - Worker's Compensation

U.S. 60 proposed to eliminate reported test-year insurance - worker's compensation expense of \$751 based on the fact that the district no longer has any employees. Staff is of the opinion that the proposed adjustment is reasonable and recommends that no annual insurance - worker's compensation expense be included for rate-making purposes.

Operations Summary

Based on the recommendations of Staff contained in this report, the utility's operating statement would appear as follows:

	<u>Test Period Application</u>	<u>Recommended Adjustments</u>	<u>Test Year Adjusted</u>
<u>OPERATING REVENUE</u>			
Water Sales	\$404,475	\$ 4,913	\$409,388
Other Revenues	<u>7,917</u>	<u>(7,917)</u>	<u>-0-</u>
Total Revenues	\$412,392	(3,004)	409,388
<u>OPERATING EXPENSE:</u>			
Salaries & Wages, Employees	\$ 29,800	\$ (29,800)	\$ -0-
Salaries & Wages, Officers, etc.	7,275	(7,275)	-0-
Pensions & Ben.	2,069	(2,069)	-0-
Purchased Water	105,012	-0-	105,012
Purchased Power	11,481	-0-	11,481
Mat. & Supplies	4,659	-0-	4,659
Contractual Serv.	12,903	3,718	16,621
Contractual Serv., Other	44,555	21,880	66,435
Transportation	600	(600)	-0-
Insurance, General Liability	4,687	-0-	4,687
Insurance, Worker's Compensation	751	(751)	-0-
Bad Debts	255	-0-	255
Miscellaneous	2,282	-0-	2,282
Depreciation	85,100	-0-	85,100

Amortization	1,287	-0-	1,287
Taxes Other Than Income Taxes	<u>2,544</u>	<u>-0-</u>	<u>2,544</u>
Total Operating Exp.	\$315,260	\$ (14,897)	\$300,363
OPERATING INCOME:	\$ 97,132	\$ 11,893	\$109,025
Other Inc./Deduc.:			
Interest/Div.	\$ 20,295	\$ -0-	\$ 20,295
Non-Utility Inc.	<u>2,917</u>	<u>-0-</u>	<u>2,917</u>
Total Other Inc.	\$ 23,212	\$ -0-	\$ 23,212
Income Available For Debt Service	<u>\$ 120,344</u>	<u>\$ 11,893</u>	<u>\$ 132,237</u>

C. Revenue Requirements Determination

Staff has calculated U.S. 60's annual debt service to be \$156,547.² U.S. 60's adjusted operations reflect \$132,237 in income available for debt service which results in a debt service coverage ("DSC") of .84X. Staff is of the opinion that U.S. 60's current rates are inadequate and will not cover payment of operating expenses and debt service requirements. In cases involving water districts, the Commission's normal practice is to allow a 1.2 DSC which provides a 20 percent margin above annual principal and interest requirements. In this instance, Staff is of the opinion that U.S. 60 should be granted an increase in revenues sufficient to produce a DSC ratio of 1.2X. Therefore, Staff recommends an increase in annual revenues of \$31,931 calculated as follows:

1.2X DSC	\$187,856
Adjusted Operating Expense	<u>300,363</u>
Total Revenue Requirement	\$488,219

² 3-year average of principal payments due	\$ 55,232
3-year average of interest payments due	<u>101,315</u>
Total of 3-year avg. of P&I payments due	<u>\$156,547</u>

LESS:	
Adjusted Test-Year Revenues	409,388
Other Income	23,212
Surcharge Revenues	<u>23,688</u>
Increase Required	<u>\$ 31,931</u>

D. Rate Design

U.S. 60's application did not include any changes in rate design. U.S. 60 proposed an across the board rate increase to it's current rates. Staff agrees that the current rate structure should not be altered at this time. Based on the revenue requirement from rates of \$465,007 less \$23,688 from surcharge revenue, the rates set out in Attachment I will produce revenues sufficient to satisfy revenue from water sales of \$441,319. Therefore, Staff recommends a 7.8% across the board increase to U.S. 60's current rates.

E. Signatures



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ATTACHMENT I

TO THE STAFF REPORT IN CASE NO. 96-318

5/8 x 3/4 Inch Meter

First	1,000 gallons per month	\$10.23 (Minimum Bill)
Next	2,000 gallons per month	5.02 per 1,000 gallons
Next	2,000 gallons per month	3.95 per 1,000 gallons
Over	5,000 gallons per month	3.44 per 1,000 gallons

1" Meter

First	5,000 gallons per month	28.17 (Minimum Bill)
Over	5,000 gallons per month	3.44 per 1,000 gallons

2" Meter

First	25,000 gallons per month	96.97 (Minimum Bill)
Over	25,000 gallons per month	3.44 per 1,000 gallons

Bulk Sales

\$1.89 per 1,000 gallons